

Compliments of

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### Improved Economic Outlook

Increased optimism about the pace of an economic recovery helped the stock market and hurt bond markets this week. As a result, mortgage rates ended the week a little higher. Mortgage rates are being pressured by concerns that an economic rebound will bring increased inflation sooner than recently thought. In addition, large Treasury auctions are adding significant supply to the market, forcing yields higher. Fortunately, foreign investors remain active buyers and Fed purchases continue at a strong pace.

Comments from Fed Chief Bernanke and generally stronger than expected economic data fueled upward revisions to the consensus economic forecast this week. In Tuesday's testimony to Congress, Bernanke offered his most optimistic economic outlook since the recession began. He expects economy activity to "bottom out, then to turn up later this year". He warned that the labor market may recover very slowly, but he expects that the Unemployment Rate will peak below 10%. He pointed to the decline in mortgage rates as a successful outcome of Fed programs and suggested that there have been signs that the housing market may be near a bottom. Housing sector data released during the week supported his view. Pending Home Sales, a leading indicator for the housing market, rose 3%, and Construction Spending posted gains as well.

In a typical economic recovery, the labor market is one of the last areas to turn around, and the pattern is expected to hold this year. The April Employment report showed that the economy lost -539K jobs, which was a large number but fewer than expected. The Unemployment Rate rose to 8.9% from 8.5% in March. The consensus outlook is that a pickup in the job market will lag an improvement in the overall economy by several months.

### Higher Limit High Balance Mortgage Loans Are Back

The American Recovery and Reinvestment Act of 2009 has brought back the short lived higher conforming loan limits available for only a short time in the 2<sup>nd</sup> half of last year. These limits are county specific and vary from a low of \$625,500 for the Big Island to \$793,750 for Oahu. These new higher limits are in effect for the rest of 2009. Owner-occupant, 2<sup>nd</sup> home, and investor loans are accepted.

### HVCC Means More Appraisal Nightmares

As reported in prior newsletters, appraisals now have to be ordered through a third party not involved in the loan process. Lenders and brokers can no longer pick who they use to complete an appraisal. Since this system was put in place (April 1<sup>st</sup> for some lenders, May 1<sup>st</sup> for all) the reports of poor appraisals and values are now starting to come in. Here is a story I heard today: Two nearly identical homes in a fairly new development --- one comes in at \$316,000; the other, the larger home, with more improvements, comes in at \$236,000! One appraiser values the property as "good" the other as "average" stating that good would be "Custom homes or construction in Hawaii Kai not Kapolei.

For those that do not know why the Home Value Code of Conduct was put in place, it was the opinion of the Attorney General for the State of New York, Andrew Cuomo that believed that the mortgage meltdown was caused by lenders and brokers putting pressure on appraisers to artificially raise the values on appraisals. He did not take into account lender appraisal reviews, reviews by mortgage insurance companies, and warehouse lines. The result of his conjecture was a settlement with Fannie and Freddie and the major US lenders. The bottom line is that lenders and brokers have no way to make sure the proper comps are used or the length of time it takes to get the appraisal. The ultimate loser: the consumer.

### Not All Lenders Ready For Making Home Affordable

This program is the one designed for homeowners with good credit and the ability to pay their existing mortgage to refinance at lower rates even if their home value has dropped. This program announced by the President in February was instituted by Fannie and Freddie April 4<sup>th</sup>. Most lenders now accept these types of transactions. But if you currently have mortgage insurance, make sure your broker or lender has the ability to place this loan. As of today, one of the nation's largest lenders is still not ready with their technology to accept these high loan-to-value loans that currently have mortgage insurance.

#### Events This Week:

Employment Fell

Productivity Higher

Pending Sales Up

ISM Services Rose

#### Events Next Week:

Wed 5/13

Retail Sales  
Import Prices

Thur 5/14

PPI

Fri 5/15

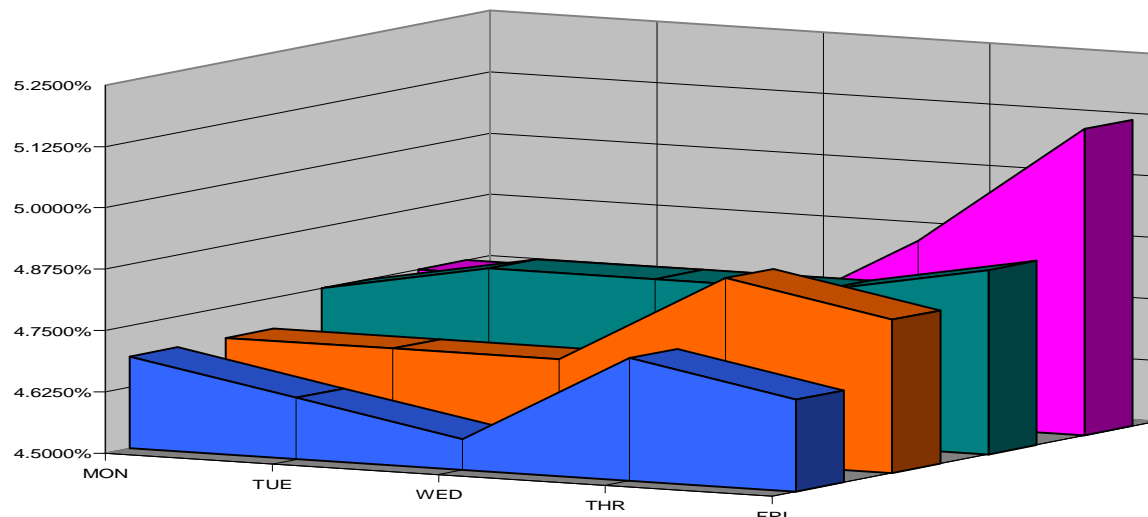
CPI  
Industrial Prod.  
Sentiment

#### Also Notable:

- The Unemployment Rate jumped to the highest level since September 1983
- 10 of the 19 financial institutions in the stress tests need to raise more capital
- The European Central Bank (ECB) cut rates by one quarter point to 1.00%
- The Fed purchased \$25 billion in agency MBS during the week ending 5/6

### DAILY RATES FROM HAWAII'S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:

Last week: +0.08%

This week: +0.05%

Stocks (weekly):

Dow: 8,500 +300

NASDAQ: 1,720 +20

**Above rates are the Monday-Friday daily base rates. Add-ons for low credit scores, high LTV, cash-out, or investment properties are then added to that rate. Borrowers can also "buy down" these rates by paying additional points.**

**Each color on the graph represents a different lender.**

### Week Ahead

The most significant economic data next week will be the monthly inflation reports. The Producer Price Index (PPI) focuses on the increase in prices of "intermediate" goods used by companies to produce finished products and will come out on Thursday. The Consumer Price Index

(CPI), the most closely watched monthly inflation report, will come out on Friday. CPI looks at the price change for those finished goods which are sold to consumers. In addition, Retail Sales on Wednesday and Industrial Production on Friday will provide important indications of economic activity. Retail Sales account for about 70% of economic activity. The Trade Balance, the Empire State index, and Consumer Sentiment will round out a busy week.

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